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CURRENT ISSUES IN INTERNATIONAL TRADE AND THEIR IMPLICATIONS FOR EXTENSION

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Introduction

The history of agriculture's interest in foreign trade during the 20th century is a study in contrast. We began the century as a major agricultural exporting nation. Following World War I, however, agricultural trade fell off; but our interest in agricultural trade did not. Throughout the 20's agriculture was searching for programs to solve its domestic price and income problems in foreign markets. The McNary - Haugen proposals, the export-debenture plan, etc., looked overseas for the ultimate solution. This was natural since the loss of these export markets was a primary cause of the depressed prices and incomes. In the "thirties," however, the whole economy was in a depression. Our attention shifted. We developed programs with little or no concern for export markets. Thus, for a period of 20 to 25 years with the exception of a few commodity groups, American agriculture lost sight of the rest of the world. We fed a large part of the world during and immediately following World War II and we expanded our shipments again in the Korean action, but these were exceptional circumstances. We made little or no effort to regain our previous export position.

Then in 1953-54, stocks began to build up. We again turned our attention to the rest of the world as a possible outlet for the price and income problems we faced here at home. Congress responded with Public Law 480, the Agricultural Trade Development and Assistance Act of 1954. Partly in response to activities under this law American agriculture today is more informed about and more interested in world agriculture and agricultural trade than at any time in history. The inclusion of this topic on your program is indicative of that interest. Before we begin to discuss issues in foreign trade let me talk for a few minutes about some basic trade principles.

Some Principles -- Comparative Advantage and All That

We trade for a great many reasons. One of the most obvious reasons is to obtain goods that aren't available here in our country or that could be produced at home only at a prohibitive cost. But if this were the only reason for trade we probably could get along without it. In a country as large and as diverse as ours, many of the goods that we can obtain only through trade are goods that we could do without or goods for which we could develop suitable, if not entirely satisfactory, substitutes. We have done so during wartime. The major reason for trade, however, is that it enables us to obtain more goods at less cost than would otherwise be the case. In other words, trade permits us to enjoy higher levels of living than we could enjoy otherwise.

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Every beginning economics student goes through the logical exercise of visualizing the gains in production that will take place in a village, a city or a state, as a result of division of labor. Thus, we use the illustration of the shoemaker concentrating on making shoes. But he is able to exchange shoes in excess of his own needs for other necessities and luxuries which in turn are produced by other specialists. Because of the increased efficiency that division of labor brings about, a society so organized can produce goods in far greater volume and variety than would be true if each producer operated to meet his own needs in all kinds of goods.

This kind of argument is so obvious that I don't think it needs saying in a society such as ours; but it is strange indeed how many of us seem to rebel when these very same principles are extended to include the whole world. In other words, when we talk about the principles of trade. When viewed in a purely economic setting, the gains to be achieved from specialization and division of labor are every bit as real in an international setting as they are when you viewed it within the confines of a village or a single nation.

Those of you who recall your "horrifying experiences" in Ag. Econ. I and II many years ago, may remember that the next step in this logical exercise was to discuss the principle of comparative advantage. I'd like to illustrate this principle with some numbers, but we haven't time. However, I do want to cite its major implications. The principle of comparative advantage suggests that it pays countries to specialize in the production of those commodities for which their comparative or relative advantage is greatest. We see this in our own country. If we look at yields of wheat and corn we find that in both cases, yields are much higher in the Corn Belt than they are in the Plains. But, the comparative advantage -- the relative difference in yields -- is much greater for corn than it is for wheat. Because of the operation of the principle of comparative advantage, we specialize in the production of corn in the Corn Belt and we specialize in the production of wheat on the Plains. As a result, we and the producers in both areas are better off. The degree of specialization that we observe probably would be even greater than it is today were it not for some of the distorting effects of government programs. This same kind of specialization that takes place <u>within</u> our country also can exist and does exist to a degree <u>among</u> countries.

We haven't time to delve more deeply into the topic of comparative advantage but there are two ideas associated with it that are fundamental to the understanding of trade. First, the total production to be achieved by practicing production specialization and trade according to the principle of comparative advantage is greater than it would be otherwise. Secondly, the benefits of that greater total production accrue to all of the participants in the trade process. This point is particularly crucial and it's one that we may tend to forget. It says that no matter how efficient, no matter how productive a country may become, it is impossible to become so efficient that it cannot benefit from trade.

Let me make one final point while we're talking about basic economic principles. Trade, by definition, is a two way street. It is an exchange of one good for another. In our developed economies we no longer barter directly. Instead we use a medium of exchange -- money. As a result, we tend to get the impression that we can sell to the other fellow in exchange for money without taking any of his goods in return. But where does he get money? He gets money by exchanging his own goods or his own labor in exchange for money. If we want to export, we are also going to have to import. We cannot continually exchange our goods for money or gold unless we are willing to buy goods from other countries so that they in turn may acquire money and gold. Thus, if we want to export we must also import.

The trade principles that I have been describing here are purely economic in nature. They hold exactly only in the relatively ideal world of economic theory. Nevertheless, the principles themselves are applicable to world trade issues as we view them today. But economic considerations are neither the beginning nor the end of world trade questions. Political, social, and military considerations also are a part of the picture. At times, non-economic considerations may be the primary ones. As we illustrate below one cannot realistically appraise foreign trade issues from an economic standpoint alone.

Furthermore, when discussing trade and many related problems, we must recognize that we must start from where we are. For a variety of reasons, production and trade have not been organized according to the principle of comparative advantage. Thus, when we argue that society as a whole will benefit from freer trade, we must recognize that this does not mean every individual in society will benefit. Investors and workers who currently have their money invested or currently are employed in a protected industry, for example, are not going to benefit from the removal of protection although you and I as consumers will. In the long run, of course, we would hope that investors would put their money to use in industries where we do have comparative advantage and that workers would find more productive employment in such industries. But there are certain frictions to the movement of resources. You cannot remake the world overnight as you would like to have it in an ideal situation. The point we should keep in mind is that we should be working toward rather than away from freer trade whenever possible.

Some Issues

Until we reach the millennium when world-wide free trade is a reality, government is always going to be an important force in determining both the volume and the terms of trade. Government has entered the trade picture for a variety of reasons. One of the major early reasons was to earn revenue. At that time we employed tariffs largely to provide government income. Government may regulate trade to insure certain levels of minimum self-sufficiency in time of war. It may restrict trade to protect infant industries or for other reasons resulting from domestic political pressures. In some cases, government may regulate trade to insure the effectiveness of domestic economic policies. This is very important in the case of agriculture. In modern developed economies agricultural trade is much less a function of trade policy determination than it is an indirect result of domestic agricultural policy.

In the United States, we are extremely prone to ignore the role of government in our own agricultural trade regarding both exports and imports. Let's talk first about exports. Each time I read a report citing a new record volume of agricultural exports I have a strong desire to write a letter to the editor asking him to give credit where credit is due. The official reports from the USDA are far better in this regard then they were a few years ago, but the glowing reports issued by the trade and those generally published in the popular press, fail to recognize adequately the role of government in the total trade process. In 1962, for example, we exported $5 billion worth of agricultural goods. Of this total, $1.5 billion, or thirty percent, was financed under special government programs, primarily PL 480. During recent years approximately 70 percent of the record exports of wheat have been under PL 480 and completely financed by government. The soybean industry often is cited as an industry that has succeeded very effectively without the help of government. Yet, about 50 to 60 percent of all the vegetable oils exported from this country are exported under PL 480. I'm not condemning this, I'm merely stating it as a fact that should be recognized when we talk about record exports of agricultural commodities. In addition to the exports that are financed wholly by government, an additional 20 percent of our total agricultural sales are made possible only with the assistance of export payments on the part of the government. What share of the credit for the expanding U. S. trade in agricultural commodities goes to the government and what share of the credit belongs to the trade is anybody's guess. Both have worked hard and successfully, but nobody should claim that either side deserves all the credit.

The government's influence on agricultural trade is not restricted to the exporting side. All countries use a variety of devices to affect agricultural trends. They include: import levies, skimming charges, quotas, health and sanitation regulations and exchange controls to name a few. The effects of these measures on the volume and the terms of trade are at least equal to the effects of subsidies and the other devices employed by exporters. Our attention is all too often directed to what we're doing to try to get more sales; we don't see what the other countries are doing to try to restrict sales. Furthermore, our attention tends to focus on tariffs. As a matter of fact, recent studies by the General Agreement on Tariffs and Trades -- The GATT -- and other agencies have revealed that the non-tariff barriers (i. e., such things as quotas, sanitary regulations, exchange controls and a whole host of hidden devices) are much more important in restricting agricultural trade than tariffs. Unfortunately, we in the United States cannot claim to be innocent in this regard.

I want to discuss one more point before closing this section. Let me call your attention to the often misused and poorly conceived idea of world price. You are all aware that subsidies are required to sell U. S. wheat or U. S. cotton in world markets because domestic prices are above world prices. Certainly this is true when we think of world prices as the price at which goods exchange in world trade. But all too often the term world price is used as if it implies some sort of a free market price determined in a worldwide market where everything is free of political manipulation except here in the United States. This simply is not so. I doubt if any major agricultural commodity entering world trade is marketed under conditions even remotely resembling a free market. The world price of wheat today, for example, is quite largely a function of the size of the subsidy paid by exporters such as the United States, the levies charged by importers, the level of domestic price support in exporting and importing countries, the degree of production control various countries follow and the conditions imposed by the International Wheat Agreement. I don't know whether the so-called free market world price of wheat is above or below the price at which wheat currently is being traded. I'm not even certain that it makes much difference whether we do know. But, if the present world price of wheat is even close to such a free market world price, it's purely coincidence.

This suggests the major issue in agricultural trade today. World trade in agricultural commodities has not been determined strictly by economic factors. It will not be determined largely by such factors for a long time to come. In the developing countries export and import programs designed to facilitate economic development and to regulate precarious balance-of-payments situations will continue to exist. This will be so even if our PL 480 and other food aid programs should disappear -- and that is not likely to happen. In developed countries the relatively low levels of agricultural prices and income is going to continue to constitute a major domestic economic and political problem. No government in the developed world appears to be willing or able to forego support programs designed to alleviate its agricultural price and income problems. Yet all such programs are inherently in conflict with the generally expressed desire for freer trade. Despite this fact there has seldom been any serious attempt to reduce the conflict in the development of farm policies.

The conflict between domestic farm policies and trade has never been more clearly demonstrated than in our current debate with the Common Market. I want to develop this point somewhat although anything we say will be too brief to properly deal with that topic. The most significant feature of the debate and I believe the one least well accepted by the American and European public is that both sides face the same fundamental economic, social and political problems in the agricultural sector. In each case, the broad problem is one of coping with a situation where agricultural productive capacity is expanding more rapidly than needs. And, because of the failure or the inability to adjust resources adequately agricultural incomes tend to fall below those in the rest of society. In the absence of government programs, both here and in Europe, agricultural incomes would lag those of their urban neighbors to still a greater degree than has been true in the past.

Surprisingly enough when looked at in broad terms, (i. e., in terms of the basic principles employed rather than specific programs), the Common Market and the United States are attempting to solve their agricultural difficulties, or maybe we should say alleviate their price and income symptoms, in about the same fashion. In both the United States and the Common Market, direct market intervention, that is, direct price supports, are limited primarily to major crops. Both the United States and the Common Market have elected to support farm income by supporting farm prices. Both the United States and the Common Market are going to try to maintain the desired level of prices by restricting the amounts of products flowing through the market. It's on this last point, -- in the devices employed to restrict the quantity of products going through the market -- that we differ significantly from the Common Market. We're an exporting nation. Therefore, in order to control marketings, we have had to employ a variety of programs such as storage, attempts at production control, and restriction of imports. The Common Market is an importing area for many commodities and particularly for grain which is at the heart of its agriculture. As a result it can restrict marketings for the most part simply by restricting imports. It doesn't have to go through the <u>expensive</u> process of storing commodities. It doesn't have to adopt a <u>politically sensitive</u> program of domestic supply control. But the Common Market is operating a supply management program in much the same sense as has been proposed in the United States. It's a program where the restrictive effects of management are felt primarily by producers outside the Common Market countries. Naturally, this makes it much easier to gain political acceptance.

The impact of the Common Agricultural policy on imports of agricultural commodities will not be known for some years to come. Even projections are difficult to make because the Common Market countries have not been able to agree on many crucial issues. The most important is the price level toward which their grain policy will be directed. But insofar as our discussion today is concerned, one issue is abundantly clear. The Common Market does intend to protect it agriculture to at least as great a degree as we in the United States and at the present time, all indications are that it will be to an even greater degree. For the most part, it is going to do this through actions taken at the border. Whether or not the Common Market agricultural policy is going to be more restrictive than the individual policies that preceded it is open to question. It is abundantly clear, however, that the generally expressed desire for freer trade among nations has not been a major factor in the determination of domestic agricultural policy in the Common Market. In all fairness we must add that neither has this desire had much influence on the making of domestic agricultural policy in the United States.

I want to return to the Common Market issue in just a moment, but let me touch briefly on two other major trade issues. The first is the "on again-off again" question of trade with communist countries. Whether or not we should trade is largely a political question. From an economic standpoint, there is absolutely no question that such trade should take place. In any case, I don't want to argue this specific point. This is a problem for the politicians. What I do want to mention briefly is the longer term implications. Many irresponsible statements have been made regarding the impact that such trade might have on agricultural policy in the United States. Among the most dangerous and the most erroneous of such statements is that this trade has solved or will solve the so-called surplus problem of American agriculture. Trade with communist countries may relieve the surplus problem somewhat but it will not solve it. Even with the current projected levels of sales to Russia, about half of our wheat exports during the current fiscal year will still have to move under PL 480 and all other sales including those to Russia require an export subsidy. Furthermore, sales to Russia will reduce surplus stocks as much as is expected only because we currently are restricting production to a very great degree and at considerable expense to taxpayers. But, even if all these things weren't true, -- and they are true, -- what assurance do we have that the possibilities for such sales will continue? What assurance do we have that this is more than a one shot operation? Do we really know how much of the current shortage in Russia is due to bad weather? No one seems to be able to make any positive statements about the future in this regard. We should also remember that the Russians cannot and will not continue to buy grain at this year's level unless they can increase exports of other goods. Even communist countries must be concerned about balance of payments and they must recognize that gold supplies are limited. I think the biggest danger that America faces from the proposed sale is that it is directing attention away from the basic American agricultural problems and the need for reform in the policies we employ to cope with them. The current tendencies to propose policies that would have no other effect than to build up stocks again is one indication of this.

The third issue I want to touch on briefly is that of beef imports in the United States. For some of you, I suspect this is the major foreign trade issue of interest to groups in your county at the present time. It may have diverted attention away from both the Common Market and the Russian grain sales. This is unfortunate because they should be dealt with together. We haven't time to go into the details, but let me make a few general comments.

First, the evidence that imports are a major factor in the present level of beef prices is unclear. Certainly increased imports have had some effect upon beef prices; but no one is sure how much. Even if imports are wholly responsible for the decline in beef prices, and I'm sure they are not, the industry's reaction to this raises some very interesting issues. Recall for a moment, the "chicken war." What was at stake? German poultry prices had fallen but why had they fallen? First, the Common Market forced the German government to remove an income subsidy that was being paid to German producers. Secondly, low-priced imports of poultry from America were driving prices of poultry in the German market down. German farmers demanded relief and they got it. They got it by raising tariffs so the American poultry could not compete so effectively.

What was our response? We said, first of all, that this was unfair. "This is not the way modern civilized countries behave in solving domestic problems. Why should our farmers suffer because yours aren't efficient? Furthermore, your consumers are suffering because they're deprived of benefiting from the great technological progress we have made in poultry production. Why don't you follow a more rational policy? Why don't you encourage your producers to become more efficient and in the meantime our producers and your producers will share this market?"

Now let's come back home. Last spring American beef prices began to fall. American producers got concerned. Where do they turn first to obtain relief? Naturally, to the restriction of those cheap imports. It's interesting, isn't it, how different things look when you turn from being an exporter to being an importer? We're suggesting the very same thing in beef policy that the Common Market has done in poultry policy.

Our cattle issue is much more complex than I have painted it; but so is the German poultry question. In both cases, I think I have painted the principle issue correctly. If we really believe in freer trade and if we really want to help the cattlemen, it might be much better to accomplish this through a direct subsidy rather than to take the risk of doing exactly the thing we've been trying to encourage the whole world not to do.

All of the issues that I've discussed, the Common Market, sales to communist countries, and beef imports point to a much broader issue. This is the basic conflict that exists between domestic agricultural policy and foreign trade. Can anything be done to reduce that conflict?

The obvious solution is to eliminate domestic policies, but political reality suggests that this is impossible even if it were economically and socially desirable, which I doubt. However, agricultural policies both here and elsewhere have been derived with almost exclusive concern for domestic interests and little or no concern for their impact upon producers and consumers in other countries. The resulting conflicts, such as the present one between the United States and the Common Market and the potential one between the United States and Australia if our beef producers are successful, threaten the attainment of broader economic and political cooperation throughout the free world. Thus, it is essential that we devise some means for bringing international considerations more clearly into focus in the determination of domestic agricultural policies.

What I'm suggesting is that domestic agricultural policies of the future may have to be determined to an increasing extent within a framework of international consultation and deliberation. This will not take place overnight. I for one do not even hold much hope for rapid agreement on international commodity agreements which is the most popular fad of the moment. But we must begin someplace and we must begin soon. One place to start might be to establish certain minimum ground rules to which nations would agree to abide in establishing domestic farm policy. As time passes, the rules could be extended and strengthened.

Implications for Extension

What are the implications of all this for extension? The obvious one is that we can no longer deal with agricultural policies solely in terms of our problems here at home? We have to deal with them in a world wide setting. I suspect most of you are thinking "My gosh, it's so difficult now I can't understand it. Now he wants me to expand it to the whole world." Unfortunately this may be true. These issues are extremely complex. Yet they and many more like them are going to become increasingly important during the months and years ahead. The educational needs in this and related areas in many respects are as great if not greater than in the more traditional vocation-oriented subjects. The dangers inherent in making decisions on beef imports or in making decisions regarding the "chicken war" involve much more than just agriculture. The actions we take may be the trigger that determines the major course of free world relations for many years to come. For example, it's disturbing that at the time the Berlin issue was red hot and the Russians had missiles in Cuba, President Kennedy and Chancellor Adenauer were writing letters to each other concerning the tariff on chicken backs and necks.

Agriculture _is_ important in determining world issues and agriculture therefore has a responsibility to understand what they're asking for when they ask for protection and all that goes with it. I'm not saying they shouldn't do it. They have to look out for their interests the same as anyone else, but they should understand all of the issues at stake as much as possible.

During the coming year a great deal of public interest is going to be generated on trade issues. Much more is going to be heard on the question of beef imports. The publicity surrounding the Kennedy round of trade negotiations under the auspices of GATT is going to stir the people in your community to ask even more questions of you about the Common Market, the Trade Expansion Act, tariff and non tariff barriers and so on. How can Extension respond to these questions?

First of all, I think we must recognize that none of us are expert enough to fully understand issues as complicated as those we encounter in the field of foreign trade, _but this should never stop us from making the attempt._ The biggest problem you and I face as educators is to recognize when we have reached the limits of our understanding and to know where to turn for help. That help may come in many ways. One way is through published materials of various kinds. For example, in the area of foreign trade, the National Extension Policy Committee sponsored a publication of a series of six leaflets on this topic about two years ago. Distribution of these leaflets could provide a good first step toward an intensive study of the principles and problems in foreign trade. Extension specialists and members of the resident staff may be able to recommend additional materials that you would find useful. A second way of obtaining help is to call in an outside "expert" to discuss a problem of specific interest in your community, for example, beef imports at the present time.

Let me make two comments in this regard. First, don't expect this expert to provide you with the answer on controversial issues. Most times there is no simple or unique answer. In fact, if he does provide you with <u>the</u> answer, treat him with suspicion! Secondly, don't think that we can run an effective educational program by running from one so-called hot issue to another. However, it may be possible to turn the interest generated on a specific issue to advantage. For example, you might be able to use a meeting on beef imports to stimulate interest in a series of programs and discussions on principles of trade and related matters. Or, you might exploit the interest developed in last year's wheat referendum to gain support for a seminar on policy making in a democratic society.

What I'm suggesting with regard to all of these extremely complex and difficult issues is that we must strive for a more truly liberal flavor in our continuing education activities. We must attempt to help people understand more clearly the fundamental processes of policy making and the basic principles of the associated disciplines such as economics, sociology, political science and so forth. If we are successful in this regard, the need for crash programs on the so-called hot issues such as the Trade Expansion Act or the wheat referendum will be greatly reduced. If we were to have done a truly effective education program on the 1963 Wheat Referendum we should have begun back in 1953; not three months before the referendum.

One final word. One thing that has impressed me greatly in classroom teaching and I think it applies equally well to extension teaching is that we must get across to people that education is not a passive process. If we believe or if our people believe that all they're going to learn on a topic is what we tell them or what we can teach them within the limits of a seminar, then we might as well fold up our tents and go home. All we can do as educators is help them to open the doors to the storehouse of knowledge and hopefully stimulate them to delve more deeply in that storehouse.